

WTM/KMA/IVD/113/07/2009

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: Dr. K. M. ABRAHAM, WHOLE TIME MEMBER

ORDER UNDER REGULATION 28(2) OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 IN THE MATTER OF M/S HARIKISHAN HIRALAL [NOW KNOWN AS SREEHARI HIRA STOCK BROKING PRIVATE LIMITED] IN THE MATTER OF SOMPLAST LEATHER INDUSTRIES LIMITED

Date of hearing: March 31, 2009

Appearance:

For Sreehari Hira Stock Broking Private Limited:

Mr. Vinod Parekh, Advocate
Mr. Shiv Kumar Bissa

For Securities and Exchange Board of India :

Mr. Vijayakrishnan G., Deputy Legal Adviser
Mr. Sachin Yadav, Assistant General Manager

1 Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted an investigation into the buying, selling and otherwise dealing in the shares of Somplast Leather Industries Limited (hereinafter referred to as the company) during the period January 02, 2002 to October 01, 2002 (hereinafter referred to as the investigation period). It was observed that the share price of the company had increased from Rs. 283/- (on January 02, 2002) to Rs. 416.90/- (on April 23, 2002). During the period under investigation, the share price reached its peak to Rs. 482/- on September 13, 2002. The traded volumes were found to be irregular, with volumes ranging between 7,000 shares on January 31, 2002 to 5 shares on May 30, 2002. It was alleged that the stock broker namely, M/s Harikishan Hiralal (Proprietor, Mr. Shiv Kumar Bissa), Member, Bombay Stock Exchange Limited (hereinafter referred to as BSE) had entered into

structured/synchronized/circular trades in the shares of the company with other stock brokers and created artificial volume and price in the scrip. M/s Harikishan Hiralal, now known as Sreehari Hira Stock Broking Private Limited is hereinafter referred to as the Broker. In the facts and circumstances, it was alleged that the Broker violated the provisions of Regulation 4 (a), (b), (c) and (d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the PFUTP Regulations) and Clause A(1), A(3), A(4) and A(5) of the Code of Conduct specified under Schedule II of Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the Broker Regulations).

2 Thereafter, SEBI, vide order dated July 22, 2005 appointed an Enquiry Officer under the provisions of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the Enquiry Regulations) to enquire into the alleged violations committed by the Broker. The Enquiry Officer, vide report dated July 28, 2006 recommended suspension of the certificate of registration of the Broker for a period of one month, for violating Clauses A(2) and A(4) of the Code of Conduct specified under Schedule II of the Broker Regulations. While finding the Broker not guilty of violating the provisions of PFUTP Regulations, the Enquiry Officer *inter alia* observed “ *It can be seen from the table above that no data pertaining to the price and quantity at which buy and sell orders were placed in any of the aforesaid trades is mentioned in the show cause notice.Therefore, from the material on record, it may not be possible to*

establish the charge of manipulation through synchronized trades as the basic data required is not available”

3. Subsequently, a notice dated August 8, 2006 was issued by SEBI to the Broker requiring it to show cause as to why appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed on it. A copy of enquiry report was also sent with the said show cause notice. The Broker, vide letter dated September 8, 2006 *inter alia* stated that it had traded on behalf of its clients in the price range of Rs. 380/- to Rs. 445/-, for 21 trades in 20 days and had traded only in 9,600 shares. The Broker claimed that the said 9,600 shares were squared up intraday with 0.5% profit or loss during the normal course of business. It further contended that it had undertaken only intraday trades and on many occasions, transactions were squared up in loss. The broker stated that it had not created any false market singly or in concert with others or had indulged in act detrimental to the investor's interest, which leads to interference with the fair and smooth functioning of the securities market. Thereafter, the Broker filed an application for consent order in terms of SEBI Circular dated April 20, 2007. The said application was rejected by the High Powered Advisory Committee, pursuant to its consideration, in terms of the above mentioned circular. Thereafter, another opportunity of hearing was granted to the Broker on March 31, 2009. Mr. Vinod Parekh, Advocate represented the Broker before me and made submissions on the lines of the reply of the Broker filed vide letter dated September 08, 2006. Mr. Shiv Kumar Bissa of the Broker was also present during the time of the hearing.

4. I have considered the Enquiry Report, the reply including the oral submissions made on behalf of the broker and other material available on record. The Enquiry Officer found the Broker guilty of violating Clause A (2)

and A (4) of Code of Conduct prescribed in Schedule II of the Broker Regulations. The Enquiry Officer further found that the Broker was not guilty of violating the provisions of PFUTP Regulations. In the facts and circumstances, I would consider it necessary to deal with the findings of the Enquiry Officer in respect of Clause A(2) and A(4) of the Code of Conduct prescribed in Schedule II of the Broker Regulations.

5. The fact that the share price of the company had increased from Rs. 283/- on January 02, 2002 to Rs. 416/- on April 23, 2002, which further increased to Rs. 482/- on September 13, 2002 is not under dispute. Admittedly, the Broker traded in the shares of the company in the price range of Rs. 350/- to Rs. 445/-. The total trades of the Broker involved 16,900 shares. Enquiry officer also observed that the Broker commenced trading in the shares on April 15, 2002 and its last trade was on May, 2002. During the period of investigation, the Broker traded in 9,600 shares on behalf of its client Mr. Vasant Bissa (brother of Mr. Shiv Kumar Bissa), which constituted 8.71% of the total volume during the investigation period. The Broker also dealt in 7,300 shares on behalf of another stock broker viz. Parklight Securities Limited. The total trades (in 16,900 shares) constituted 15.32% of the total volume during the investigation period. The trades of the Broker spread over a period of two months. As stated earlier in this order, the Enquiry Officer had observed that the Broker had not violated the provisions of the PFUTP Regulations. However, I find that the total trades of the Broker accounted for 15.32% of the total volume traded in the shares of the company during the period of investigation. The pertinent factor to be mentioned here is that the shares of the company were illiquid during the said period. The traded quantity indicated an irregular pattern with volume varying between 7,000 shares on January 31, 2002 to only 5 shares on May

30, 2002. The share price of the company had increased from Rs. 380/- to Rs. 450/- during the period when the Broker had traded in the shares of the company. Needless to say, the trades of the Broker caused an artificial increase in the share price of the company and thus manipulated the shares of the company in the securities market, which was detrimental to the investors' interest. The Enquiry officer further observed that the volume of 15.32% in thinly traded scrip was certainly not a usual trading. Besides, the reversal of trades, with the counter party stock broker Parklight Investments Private Limited was also observed. During the said reversal, client of the Broker was the brother of Mr. Shiv Kumar Bissa (proprietor of M/s Harikishan Hiralal). Enquiry Officer also observed that the Broker had created false market in the shares. In the facts and circumstances of the case, it is established that the Broker had failed to exercise due skill, care and diligence in the conduct of its business while trading in the shares of the company. A stock broker is not allowed to create false market either singly or in concert with others or indulge in any act detrimental to the interest of the investors. I agree with the Enquiry Officer's observation that the Broker violated Clause A (2) and A (4) of Code of Conduct specified under Schedule II of the Broker Regulations. I note that the present case has been initiated under the provisions of the Enquiry Regulations. The Enquiry Regulations was repealed by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 anything done or any action (including enquiry) commenced or notice issued under the Enquiry Regulations before the publication of the 2008 Regulations (mentioned above) in the Official Gazette are deemed to have been done or taken or commenced under the corresponding provisions of the 2008 Regulations. Therefore, this order is being passed under the corresponding provisions of the Securities and Exchange Board of India (Intermediaries Regulations), 2008.

6. In view of the foregoing, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, Sreehari Hira Stock Broking Private Limited, formerly known as M/s Harikishan Hiralal (Registration No. INB 011233336), Member, Bombay Stock Exchange Limited is hereby warned for its deviations observed herein from the provisions of Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 which regulate its function as a registered intermediary of Securities and Exchange Board of India. The said stock broker is further directed to strictly abide by laws, rules and regulations that govern its dealings in the securities market.

DR. K. M. ABRAHAM

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA

Place: Mumbai

Date: July 31, 2009